## NOTE 13 – DEFINED BENEFIT PENSION PLAN

### A. Plan description

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| Name of Plan: | Virginia Retirement System (VRS) |
| Identification of Plan: | Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan |
| Administering Entity: | Virginia Retirement System (VRS) |

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 with 5 years of service for participating law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employees (age 50 with 25 years of service for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.70% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for an annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5.00% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

Professional and non-professional employees of the School Board are also covered by the VRS. Professional employees participate in a VRS statewide teacher cost sharing pool, and non-professional employees participate as a separate group in the agent multiple-employer retirement system.

VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. A copy of that report may be downloaded from the website at http://www.varetire.org/Pdf/2003AnnuRept.pdf or obtained by writing to VRS at P.O. Box 2500, Richmond, VA 23218-2500.

### B. Funding policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their annual salary to the VRS. Fauquier County (County) and the Fauquier County School Board (School Board) have assumed this 5.00% member contribution. In addition, the County and the School Board are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The County and the School Board non-professional employer's contribution rates for the fiscal year ended 2005 were 6.00% and 0.50% of the annual covered payroll, respectively. The total contribution made on behalf of the County and School Board non-professional employees totaled 11.00% and 5.50% of the annual covered payroll, respectively.

Total contributions made by the School Board to the VRS statewide teacher cost-sharing pool for professional employees of the schools for the three fiscal years ending June 30, 2005, 2004, and 2003, were $5,924,300, $4,355,860, and $4,023,587, respectively, and these contributions represented 11.03%, 8.77%, and 8.77% respectively, of current covered payroll.

### C. Annual pension cost

For fiscal year 2005, the County's annual pension cost of $2,215,582 was equal to the County's required and actual contributions which included the 5.00% member contribution assumed by the County on behalf of the employees and the 6.00% employer's share. For fiscal year 2005, the School Board's annual pension cost for non-professional employees of $200,264 was equal to the School Board's required and actual contributions, which included the 5.00% member contribution assumed by the School Board on behalf of the employees and the 0.50% employer's share. The required contributions were determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.00% investment rate of return (b) projected salary increases ranging from 4.25% to 6.10% per year, and (c) 3.00% per year cost–of-living adjustments.

Both (a) and (b) included an inflation component of 3.00%. The actuarial value of the County's and School Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The County's and School Board's funded actuarial assets are being amortized as a level percentage of payroll on an open basis within a period of 30 years or less.

**D. Trend information**

County:

| Fiscal Year Ending | | Annual Pension Cost (APC) | Percentage of APC Contributed | | Net Pension Obligation |
|---|---|---|---|---|---|
| June 30, 2003 | $ | 1,584,058 | 100% | $ | - |
| June 30, 2004 | | 1,686,894 | 100% | | - |
| June 30, 2005 | | 2,215,582 | 100% | | - |

Component unit − School Board:

| Fiscal Year Ending | | Annual Pension Cost (APC) | Percentage of APC Contributed | | Net Pension Obligation |
|---|---|---|---|---|---|
| June 30, 2003 | $ | 168,916 | 100% | $ | - |
| June 30, 2004 | | 169,938 | 100% | | - |
| June 30, 2005 | | 200,264 | 100% | | - |

**E. Post employment benefits**

The School Board provides limited postretirement health and dental benefits, as provided for in Virginia state law, to retirees who have 15 or more years of creditable VRS service. Retirees are granted the option to participate by paying 100% of their monthly health insurance premium to Fauquier County or to the carrier of their choice. A maximum credit of $105 is paid by VRS directly to the retirees as part of their retirement benefit. As of the end of the current fiscal year there were 168 retirees receiving these benefits. The plan is financed by payments from the School Board to VRS. For fiscal year ending June 30, 2005, the contribution made by the School Board was $369,753. The surplus funds are not considered advance funded because the School Board, its employees, and retirees have no vested rights to access the excess funds. Generally accepted accounting principles (GAAP) do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.